MTHONJANENI LOCAL MUNICIPALITY
REGISTRATION CODE KZN 285)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

General Information

Legal form of entity	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act No, 117 of 1998)
Mayoral Committee	
Executive Mayor	Cllr S.B.K Biyela (Mayor)
	Cllr P.E Ntombela (Deputy Mayor)
	Cllr N.A Mbatha (Speaker)
	Cllr D.M Dludla (Exco Member)
	Cllr M.J Xulu (Exco Member)
	Cllr E Masikane (Exco Member)
Councillors	Cllr B.N Zwane
	Cllr D.F Xulu
	Cllr H.K.L Zungu
	Cllr J Mlawu
	Cllr M.E Zulu (Deceased - 04 July 2018)
	Cllr M.N Biyela
	Cllr M.N Ndlangamandla
	Cllr M.S Zulu
	Cllr M.V Mchunu
	Cllr N.N Nzuza
	Cllr N.P Shobede
	Cllr P.S.M Mchunu
	Cllr S.P Buthelezi
	Cllr S.V Majola
	Cllr T.E Mpungose
	Cllr T.F Zincume
	Cllr Z.A Sibiya
	Cllr M.Z Ndlovu (Appointment Date - 18 October 2018)
	Cllr T.P Ngema (Appointment Date - 01 August 2018)
	Cllr B.M.T Sibiya
Grading of Local Authority	Grade 1
Accounting Officer	Mr P.P Sibiya
Chief Finance Officer (CFO)	Mr N.M Myeni (Acting)
Business Address	21 Reinhold Street Melmoth 3835
Postal Address	P.O. Box 11 Melmoth 3835
Bankers	First National Bank
Auditors	Auditor General South Africa
Attorneys	BMM Attorneys

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
COGTA	Department of Co-operative Governance and Traditional Affairs
PAYE	Pay As You Earn
UIF	Unemployment Insurance Fund
SALGA	South African Local Government Association
CIGFARO	Chartered Institute of Government Finance, Audit & Risk Officers
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
LED	Local Economic Development

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is partly dependent on the community and state for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Mthonjaneni Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in the note titled remuneration of these Annual Financial Statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of the Public Office Bearers Act and the Minister of Provincial and Local Governments' determination in accordance with this Act.

The annual financial statements set out on pages 4 to 68, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2019 and were signed on its behalf by:

Mr P.P Sibiya
Accounting Officer

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
ASSETS			
Current Assets			
Inventories	9	445 750	543 824
Receivables from Non-Exchange Transactions	10&11	37 519 957	37 657 243
VAT Receivable	12	743 979	3 803 731
Receivables from Exchange Transactions	13	6 356 002	5 573 090
Cash and Cash Equivalents	14	2 693 793	3 680 200
		47 759 481	**51 258 088**
Non-Current Assets			
Biological Assets	3	2 762 238	1 505 763
Investment Property	4	106 351	111 773
Property, Plant and Equipment	5	368 869 540	351 353 642
Intangible Assets	6	33 335	35 391
Heritage Assets	7	589	589
		371 772 053	**353 007 158**
TOTAL ASSETS		**419 531 534**	**404 265 246**
LIABILITIES			
Current Liabilities			
Payables from Exchange Transactions	17	26 616 306	12 741 799
Consumer Deposits	18	1 015 363	1 080 650
Unspent Conditional Grants and Receipts	15	17 134	17 134
Provisions	16	3 620 807	3 260 955
		31 269 610	**17 100 538**
Non-Current Liabilities			
Employee Benefit Obligation	8	3 442 001	2 761 001
Provisions	16	5 882 190	5 107 283
		9 324 191	**7 868 284**
TOTAL LIABILITIES		**40 593 801**	**24 968 822**
NET ASSETS		**378 937 733**	**379 296 424**
ACCUMULATED SURPLUS		378 937 734	379 296 425

* See Note 38

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
REVENUE			
Revenue From Exchange Transactions			
Service Charges	20	22 284 343	21 984 542
Rental of Facilities and Equipment	21	261 926	226 610
Licenses and Permits		1 543 785	1 671 732
Other Income	22	277 050	1 065 676
Interest Received - Investment	23	695 572	1 367 140
Fair Value Adjustment	32	1 256 474	-
TOTAL REVENUE FROM EXCHANGE TRANSACTIONS		**26 319 150**	**26 315 700**
Revenue From Non-Exchange Transactions			
Revenue			
Property Rates	24	12 125 009	11 431 084
Property Rates - Penalties Imposed	24	1 328 042	1 158 439
Transfer revenue			
Government Grants & Subsidies	25	113 421 000	111 648 000
Fines, Penalties and Forfeits		426 689	9 006 350
TOTAL REVENUE FROM NON-EXCHANGE TRANSACTIONS		**127 300 740**	**133 243 873**
TOTAL REVENUE	19	**153 619 890**	**159 559 573**
EXPENDITURE			
Employee Related Costs	26	(51 214 428)	(42 913 126)
Remuneration of Councillors	27	(8 349 994)	(7 637 279)
Depreciation and Amortisation	28	(17 488 900)	(15 257 800)
Interest Paid	47	(341 816)	-
Bulk Purchases	29	(22 302 722)	(21 540 968)
Contracted Services	30	(7 626 289)	(5 787 818)
Fair Value Adjustments		-	(1 260 378)
Actuarial Losses		(681 000)	(21 000)
General Expenses	31	(45 952 403)	(49 167 532)
TOTAL EXPENDITURE		**(153 957 552)**	**(143 585 901)**
SURPLUS/(DEFICIT) FOR THE YEAR		**(337 662)**	**15 973 672**

* See Note 38

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2017	**363 322 753**	**363 322 753**
Changes in net assets		
Surplus for the year	15 973 672	15 973 672
Total changes	15 973 672	15 973 672
Opening Balance as Previously Reported	379 288 616	379 288 616
Adjustments		
Prior Year Adjustments	(13 220)	(13 220)
Balance at 01 July 2018 as restated*	**379 275 396**	**379 275 396**
Changes in net assets		
Surplus for the year	(337 662)	(337 662)
Total Changes	(337 662)	(337 662)
Balance at 30 June 2019	**378 937 734**	**378 937 734**

* See Note 38

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts			
Taxation		13 453 051	12 589 523
Sale of Goods and Services		24 152 561	23 294 391
Grants		113 421 000	111 648 000
Interest Income		695 572	1 367 140
		151 722 184	148 899 054
Payments			
Employee Costs		(59 564 422)	(50 529 405)
Suppliers		(57 815 109)	(73 236 429)
Interest Paid		(341 816)	-
		(117 721 347)	(123 765 834)
NET CASH FLOWS FROM OPERATING ACTIVITIES	33	**34 000 837**	**25 133 220**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	5	(34 972 944)	(41 734 955)
Purchase of Other Intangible Assets	6	(14 300)	-
NET CASH FLOWS FROM INVESTING ACIVITIES		**(34 987 244)**	**(41 734 955)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(986 407)**	**(16 601 735)**
Cash and Cash Equivalents at the beginning of the year		3 680 200	20 281 935
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	14	**2 693 793**	**3 680 200**

* See Note 38

Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2019											
Financial Performance											
Property Rates	13 850 000	5 000 000	18 850 000	-		18 850 000	13 453 051		(5 396 949)	71 %	97 %
Service Charges	27 314 000	2 000 000	29 314 000	-		29 314 000	22 284 343		(7 029 657)	76 %	82 %
Investment Revenue	1 200 000	(450 000)	750 000	-		750 000	695 572		(54 428)	93 %	58 %
Transfers Recognised - Operational	76 672 000	-	76 672 000	-		76 672 000	76 672 000		-	100 %	100 %
Other Own Revenue	9 185 000	9 265 000	18 450 000	-		18 450 000	3 765 924		(14 684 076)	20 %	41 %
Total revenue (excluding capital transfers and contributions)	**128 221 000**	**15 815 000**	**144 036 000**	**-**		**144 036 000**	**116 870 890**		**(27 165 110)**	**81 %**	**91 %**
Employee Costs	(48 580 000)	(3 775 000)	(52 355 000)	-	-	(52 355 000)	(51 214 428)	-	1 140 572	98 %	105 %
Remuneration of Councillors	(7 886 000)	(924 000)	(8 810 000)	-	-	(8 810 000)	(8 349 994)	-	460 006	95 %	106 %
Depreciation and Asset Impairment	(5 252 000)	-	(5 252 000)			(5 252 000)	(17 488 900)	-	(12 236 900)	333 %	333 %
Interest Paid	-	-	-	-	-	-	(341 816)	-	(341 816)	DIV/0 %	DIV/0 %
Materials and Bulk Purchases	(25 752 000)	(460 000)	(26 212 000)	-	-	(26 212 000)	(22 302 722)	-	3 909 278	85 %	87 %
Other Expenditure	(37 130 000)	(9 654 000)	(46 784 000)	-	-	(46 784 000)	(54 259 692)	-	(7 475 692)	116 %	146 %
Total Expenditure	**(124 600 000)**	**(14 813 000)**	**(139 413 000)**	**-**	**-**	**(139 413 000)**	**(153 957 552)**	**-**	**(14 544 552)**	**110 %**	**124 %**
Surplus/(Deficit)	**3 621 000**	**1 002 000**	**4 623 000**	**-**		**4 623 000**	**(37 086 662)**		**(41 709 662)**	**(802)%**	**(1 024)%**

Mthonjaneni Local Municipality

(Registration number KZN 285)
Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	32 749 000	-	32 749 000	-		32 749 000	36 749 000		4 000 000	112 %	112 %
Surplus (Deficit) after capital transfers and contributions	**36 370 000**	**1 002 000**	**37 372 000**	**-**		**37 372 000**	**(337 662)**		**(37 709 662)**	**(1)%**	**(1)%**
Surplus/(Deficit) for the year	**36 370 000**	**1 002 000**	**37 372 000**	**-**		**37 372 000**	**(337 662)**		**(37 709 662)**	**(1)%**	**(1)%**
Capital expenditure and funds sources											
Total Capital Expenditure	36 339 000	1 226 000	37 565 000	-		37 565 000	41 734 955		4 169 955	111 %	115 %
Sources of capital funds											
Transfers recognised - capital	32 749 000	-	32 749 000	-		32 749 000	-		(32 749 000)	- %	- %
Internally generated funds	3 590 000	1 226 000	4 816 000	-		4 816 000	-		(4 816 000)	- %	- %
Total sources of capital funds	**36 339 000**	**1 226 000**	**37 565 000**	**-**		**37 565 000**	**-**		**(37 565 000)**	**- %**	**- %**

Statement of Comparison of Budget and Actual Amounts

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	37 287 000	(17 363 000)	19 924 000	-		19 924 000	34 000 837		14 076 837	171 %	91 %
Net cash from (used) investing	(27 839 000)	(1 226 000)	(29 065 000)	-		(29 065 000)	(34 987 244)		(5 922 244)	120 %	126 %
Net increase/(decrease) in cash and cash equivalents	**9 448 000**	**(18 589 000)**	**(9 141 000)**	**-**		**(9 141 000)**	**(986 407)**		**8 154 593**	**11 %**	**(10)%**
Cash and cash equivalents at the beginning of the year	(6 551 000)	6 551 000	-	-		-	3 680 200		3 680 200	DIV/0 %	(56)%
Cash and cash equivalents at year end	**2 897 000**	**(12 038 000)**	**(9 141 000)**	**-**		**(9 141 000)**	**2 693 793**		**(11 834 793)**	**(29)%**	**93 %**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

The amounts presented in the annual financial statements are rounded-off to the nearest rand.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Biological assets

The entity recognises biological assets or agricultural produce when, and only when:
- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less costs to sell.

The fair value of the pine plantations is based on the combined fair value of the land and the pine trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the pine trees.

A gain or loss arising on initial recognition of biological assets or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of biological assets is included in surplus or deficit for the period in which it arises.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Accounting Policies

1.4 Investment property (continued)

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	40 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Accounting Policies

1.5 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	
• Dwellings		30 Years
• Carports		15 Years
• Fence		25 Years
Machinery and equipment	Straight line	10 Years
Furniture and office equipment	Straight line	7 Years
Transport Assets	Straight line	7 Years
Infrastructure	Straight line	
• Electrical		15 Years
• Solid Waste		15 Years
• Roads		10 Years
Community	Straight line	25 Years
Other property, plant and equipment	Straight line	30 Years

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Accounting Policies

1.6 Intangible assets (continued)

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Licenses		10 Years
Computer software		5 Years

1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Accounting Policies

1.7 Heritage assets (continued)

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Accounting Policies

1.8 Financial instruments (continued)

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

1.8 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Accounting Policies

1.10 Inventories (continued)

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

1.11 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term “contractor” thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by .

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.12 Value-Added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) VAT on the invoice basis, in accordance with Section 15(1) of the VAT Act No.89 of 1991.

1.13 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.13 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

1.14 Employee benefits (continued)

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

Accounting Policies

1.14 Employee benefits (continued)

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.14 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.15 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

Accounting Policies

1.16 Commitments (continued)

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction invoiving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest

Revenue arising from the use by others of entity assets yielding interest, similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.18 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:
- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.19 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.20 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.24 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

Accounting Policies

1.25 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 12 (as amended 2016): Inventories	01 April 2018	The impact of the is not material.
• GRAP 16 (as amended 2016): Investment Property	01 April 2018	The impact of the is not material.
• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	The impact of the is not material.
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	The impact of the is not material.
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	The impact of the is not material.
• GRAP 27 (as amended 2016): Agriculture	01 April 2018	The impact of the is not material.
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	The impact of the is not material.
• GRAP 103 (as amended 2016): Heritage Assets	01 April 2018	The impact of the is not material.
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	The impact of the is not material.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2099	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2099	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact
• Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges	01 April 2019	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	Unlikely there will be a material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	Unlikely there will be a material impact

Notes to the Annual Financial Statements

2. **New standards and interpretations (continued)**

• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	Unlikely there will be a material impact
• Directive 7 (revised): The Application of Deemed Cost	01 April 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

3. Biological assets

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Plantation	2 762 238	-	2 762 238	1 505 763	-	1 505 763

Reconciliation of biological assets - 2019

	Opening balance	**Gains or losses arising from changes in fair value**	**Total**
Plantation	1 505 763	1 256 475	2 762 238

Reconciliation of biological assets - 2018

	Opening balance	**Gains or losses arising from changes in fair value**	**Total**
Plantation	2 766 141	(1 260 378)	1 505 763

Pledged as security

There is no Plantation pledged as security.

Notes to the Annual Financial Statements

Figures in Rand

4. Investment property

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	238 995	(132 644)	106 351	238 995	(127 222)	111 773

Reconciliation of investment property - 2019

	Opening balance	**Depreciation**	**Total**
Investment property	111 773	(5 422)	106 351

Reconciliation of investment property - 2018

	Opening balance	**Depreciation**	**Total**
Investment property	117 197	(5 424)	111 773

Pledged as security

There is no Investment Property pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

4. Investment property (continued)

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the cost model (when fair value of investment property cannot be reliably determined), disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	46 198 292	-	46 198 292	46 198 292	-	46 198 292
Machinery and Equipment	4 938 486	(1 914 505)	3 023 981	4 487 622	(1 316 426)	3 171 196
Furniture and Office Equipment	1 753 018	(946 609)	806 409	1 675 887	(797 931)	877 956
Transport Assets	13 952 388	(8 277 491)	5 674 897	13 952 388	(6 646 138)	7 306 250
Computer Equipment	888 378	(500 290)	388 088	739 835	(399 623)	340 212
Community Assets	100 227 499	(20 345 299)	79 882 200	95 356 420	(16 818 644)	78 537 776
Road infrastructure	95 723 502	(14 699 306)	81 024 196	92 084 854	(10 314 823)	81 770 031
Work in Progress	48 136 037	-	48 136 037	33 389 985	-	33 389 985
Stormwater Infrastructure	8 993 093	(1 447 877)	7 545 216	8 993 093	(1 106 760)	7 886 333
Solid Waste Infrastructure	209 004	(59 036)	149 968	209 004	(53 549)	155 455
Water Supply Infrastructure	1 984 882	(396 976)	1 587 906	1 984 882	(198 488)	1 786 394
Electrical Infrastructure	88 389 043	(14 906 268)	73 482 775	77 670 825	(9 583 873)	68 086 952
Other Assets	27 699 052	(6 729 477)	20 969 575	27 366 568	(5 519 758)	21 846 810
Total	**439 092 674**	**(70 223 134)**	**368 869 540**	**404 109 655**	**(52 756 013)**	**351 353 642**

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Transfers	Depreciation	Total
Land	46 198 292	-	-	-	46 198 292
Machinery and Equipment	3 171 196	450 864	-	(598 079)	3 023 981
Furniture and Office Equipment	877 956	77 131	-	(148 678)	806 409
Transport Assets	7 306 250	-	-	(1 631 353)	5 674 897
Computer Equipment	340 212	138 467	-	(90 591)	388 088
Community Assets	78 537 776	41 534	4 829 546	(3 526 656)	79 882 200
Road Infrastructure	81 770 031	106 143	3 532 505	(4 384 483)	81 024 196
Work in Progress	33 389 985	33 826 321	(19 080 269)	-	48 136 037
Stormwater Infrastructure	7 886 333	-	-	(341 117)	7 545 216
Solid Waste Infrastructure	155 455	-	-	(5 487)	149 968
Water Supply Infrastructure	1 786 394	-	-	(198 488)	1 587 906
Electrical Infrastructure	68 086 952	-	10 718 218	(5 322 395)	73 482 775
Other Assets	21 846 810	332 484	-	(1 209 719)	20 969 575
	351 353 642	**34 972 944**	**-**	**(17 457 046)**	**368 869 540**

Notes to the Annual Financial Statements

Figures in Rand

5. **Property, plant and equipment (continued)**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Transfers received	Reclassification	Depreciation	Impairment loss	Total
Land	46 198 292	-	-	-	-	-	46 198 292
Buildings	76 813 637	-	-	(76 813 637)	-	-	-
Plant and machinery	-	874 132	-	2 916 690	(619 626)	-	3 171 196
Furniture and fixtures	-	558 091	-	435 670	(115 805)	-	877 956
Transport Assets	-	716 590	-	8 945 765	(2 356 105)	-	7 306 250
Computer Equipment	-	131 320	-	318 324	(109 432)	-	340 212
Infrastructure	112 618 268	-	-	(112 618 268)	-	-	-
Community Assets	-	195 020	18 506 741	63 301 548	(3 465 533)	-	78 537 776
Other property, plant and equipment	12 778 258	-	-	(12 778 258)	-	-	-
Road Infrastructure	-	-	22 467 827	62 971 020	(3 668 816)	-	81 770 031
Work in Progress	76 396 214	38 412 727	(81 418 956)	-	-	-	33 389 985
Stormwater Infrastructure	-	-	1 058 268	7 164 276	(336 211)	-	7 886 333
Solid Waste Infrastructure	-	-	-	160 943	(5 488)	-	155 455
Water Supply Infrastructure	-	-	1 984 882	-	(198 488)	-	1 786 394
Electrical Infrastructure	-	641 884	28 495 948	42 250 404	(3 301 284)	-	68 086 952
Other Assets	-	203 355	8 907 125	13 745 523	(1 007 518)	(1 675)	21 846 810
	324 804 669	**41 733 119**	**1 835**	**-**	**(15 184 306)**	**(1 675)**	**351 353 642**

Notes to the Annual Financial Statements

Figures in Rand		2019	2018

5. Property, plant and equipment (continued)

Pledged as security

There are no assets pledged as security.

Reconciliation of Work-in-Progress 2019

	Included within Electrical Infrastructure	Included within Community Assets	Included within Road Infrastructure	Included within Other Assets	Total
Opening balance	17 496 172	1 449 675	5 924 605	8 519 531	33 389 983
Additions	13 234 371	5 883 031	14 708 920	-	33 826 322
Transferred to completed items	(10 718 218)	(4 829 546)	(3 532 505)	-	(19 080 269)
	20 012 325	**2 503 160**	**17 101 020**	**8 519 531**	**48 136 036**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

5. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2018

	Included within Electrical Infrastructure	Included within Community Assets	Included within Road Infrastructure	Included within Other Assets	Included within Storm Water Infrustructure	Total
Opening balance	35 031 229	17 763 950	18 706 473	4 894 562	-	76 396 214
Additions	10 960 892	2 192 468	9 684 132	14 516 976	1 058 268	38 412 736
Transferred to completed items	(28 495 949)	(18 506 742)	(22 465 990)	(10 892 007)	(1 058 268)	(81 418 956)
	17 496 172	**1 449 676**	**5 924 615**	**8 519 531**	**-**	**33 389 994**

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Expenditure incurred to repair and maintain Property, plant and equipment included in Statement of Financial Performance		
Contracted services	2 182 139	2 852 691
Materials	2 414 064	1 103 961
	4 596 203	**3 956 652**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the Municipality.

Notes to the Annual Financial Statements

Figures in Rand

6. **Intangible assets**

	2019			2018		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	237 563	(204 228)	33 335	223 263	(187 872)	35 391

Reconciliation of intangible assets - 2019

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	35 391	14 300	(16 356)	33 335

Reconciliation of intangible assets - 2018

	Opening balance	**Amortisation**	**Total**
Computer software	80 892	(45 501)	35 391

Notes to the Annual Financial Statements

Figures in Rand

7. **Heritage assets**

	2019			2018		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Historical monuments	589	-	589	589	-	589

Reconciliation of heritage assets 2019

	Opening balance	**Total**
Historical monuments	589	589

Reconciliation of heritage assets 2018

	Opening balance	**Total**
Historical monuments	589	589

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

8. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	2 761 001	2 740 001
Net expense recognised in the statement of financial performance	681 000	21 000
	3 442 001	**2 761 001**

Net expense recognised in the statement of financial performance

Current service cost	291 000	204 000
Interest cost	248 000	284 000
Actuarial (gains) losses	173 000	(347 000)
Expected return on reimbursement rights	(31 000)	(120 000)
	681 000	**21 000**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.93 %	9.05 %
Medical cost trend rates	7.70 %	7.37 %
Expected increase in salaries	7.20 %	1.57 %
Expected pension increases	6.20 %	5.68 %
Proportion of employees opting for early retirement	- %	3.37 %

9. Inventories

Consumable stores	445 750	543 824

Inventory pledged as security

There is no Inventory pledged as security.

10. Receivables from non-exchange transactions

Fines	14 759 392	17 009 977
Other non-exchange receivable (Ntambanana Split)	5 715 430	5 715 430
Consumer debtors - Rates	17 045 135	14 931 836
	37 519 957	**37 657 243**

Reconciliation of provision for impairment traffic fines

Opening balance	(72 799 825)	(70 120 525)
Provision for impairment	(1 786 923)	(2 679 300)
	(74 586 748)	**(72 799 825)**

11. Property rates debtors disclosure

Gross balances

Consumer debtors - Rates	21 563 779	18 794 842

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

11. Property rates debtors disclosure (continued)

Less: Allowance for impairment		
Consumer debtors - Rates	(4 518 644)	(3 863 006)
Net balance		
Consumer debtors - Rates	17 045 135	14 931 836
Rates		
Current (0 -30 days)	379 652	-
31 - 60 days	763 311	488 515
61 - 90 days	325 731	412 788
91 - 120 days	315 602	306 396
121 - 365 days	197 874	17 587 143
121 - 365 days	152 246	-
> 365 days	14 910 719	(3 863 006)
	17 045 135	**14 931 836**

12. VAT receivable

VAT	743 979	3 803 731

13. Consumer debtors

Gross balances		
Electricity	5 470 779	5 160 783
Refuse	1 901 218	1 208 111
Property rentals	288 450	160 915
	7 660 447	**6 529 809**
Less: Allowance for impairment		
Electricity	(647 987)	(471 831)
Refuse	(656 458)	(484 888)
	(1 304 445)	**(956 719)**
Net balance		
Electricity	4 822 792	4 688 952
Refuse	1 244 760	723 223
Property rentals	288 450	160 915
	6 356 002	**5 573 090**
Included in above is receivables from exchange transactions		
Electricity	4 822 792	4 688 952
Refuse	1 244 760	723 223
Property rentals	288 450	160 915
	6 356 002	**5 573 090**
Net balance	**6 356 002**	**5 573 090**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

13. Consumer debtors (continued)

Electricity		
Current (0 -30 days)	1 723 997	59 239
31 - 60 days	285 174	38 514
61 - 90 days	249 500	407 581
91 - 120 days	121 086	290 514
121 - 180 days	219 791	4 442 847
181 - 365 days	174 507	(77 912)
> 365 days	2 048 737	(471 831)
	4 822 792	**4 688 952**

Refuse		
Current (0 -30 days)	118 704	38 290
31 - 60 days	2 030	89 340
61 - 90 days	42 741	25 217
91 - 120 days	36 570	57 338
121 - 365 days	69 062	997 926
> 365 days	975 653	(484 888)
	1 244 760	**723 223**

Property rentals		
Current (0 -30 days)	25 399	160 915
31 - 60 days	47 386	-
61 - 90 days	20 139	-
91 - 120 days	18 444	-
121 - 365 days	106 141	-
> 365 days	70 941	-
	288 450	**160 915**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(956 719)	(693 612)
Contributions to allowance	(347 726)	(263 107)
	(1 304 445)	**(956 719)**

Receivables from Exchange Transaction pledged as security

There are no Receivables from Exchange Transactions pledged as security.

14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 374	753
Bank balances	2 692 419	3 679 447
	2 693 793	**3 680 200**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

14. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
First National Bank - Current (Main) - 54980006117	1 065 038	1 528 893	3 669 170	1 065 058	1 551 189	3 690 198
First National Bank- Current - 62330092470	32 753	3 550	66 995	32 753	3 550	66 995
Investec Bank - Call - 1100435097	47 384	59 405	11 099 769	47 384	59 405	11 099 769
First National Bank - Fixed Deposit - 712450040078	1 540 000	1 540 000	1 540 000	1 540 000	1 540 000	1 540 000
First National Bank - Call Account - 62051262146	994	499 350	499 543	994	499 351	499 543
First National Bank - Call - 62532053204	1 115	25 952	3 385 187	1 115	25 952	3 385 187
First National Bank - Call Account - 62771806092	2 385	-	-	2 385	-	-
First National Bank - Call Account - 62771807016	2 730	-	-	2 730	-	-
Total	**2 692 399**	**3 657 150**	**20 260 664**	**2 692 419**	**3 679 447**	**20 281 692**

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2019	2018
Unspent conditional grants and receipts		
COGTA Grant	17 134	17 134

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

16. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	3 327 283	347 127	-	-	120 780	3 795 190
Provision for bonus	500 514	-	-	(88 423)	-	412 091
Provision for leave pay	2 760 441	612 894	(164 619)	-	-	3 208 716
Employee benefit cost	1 780 000	546 636	(239 636)	-	-	2 087 000
	8 368 238	**1 506 657**	**(404 255)**	**(88 423)**	**120 780**	**9 502 997**

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	3 157 206	71 888	-	98 189	3 327 283
Provision for bonus	579 121	-	(78 607)	-	500 514
Provision for leave pay	2 366 801	595 671	(202 031)	-	2 760 441
Employee benefit cost	1 482 000	360 794	(62 794)	-	1 780 000
	7 585 128	**1 028 353**	**(343 432)**	**98 189**	**8 368 238**

	2019	2018
Non-current liabilities	5 882 190	5 107 283
Current liabilities	3 620 807	3 260 955
	9 502 997	**8 368 238**

17. Payables from exchange transactions

	2019	2018
Trade payables	18 388 447	7 633 084
Payments received in advanced - contract in process	927 035	927 035
Retentions	3 427 085	1 470 315
Third parties - payroll	1 327 267	1 829 573
Other payables	2 546 472	881 792
	26 616 306	**12 741 799**

18. Consumer deposits

	2019	2018
Electricity	684 267	745 726
Other Consumer Deposits	331 096	334 924
	1 015 363	**1 080 650**

19. Revenue

	2019	2018
Service charges	22 284 343	21 984 542
Rental of facilities and equipment	261 926	226 610
Licenses and permits	1 543 785	1 671 732
Other income	277 050	1 065 676
Interest received - investment	695 572	1 367 140
Property rates	12 125 009	11 431 084
Property rates - penalties imposed	1 328 042	1 158 439
Government grants & subsidies	113 421 000	111 648 000
Fines, Penalties and Forfeits	426 689	9 006 350
	152 363 416	**159 559 573**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

19. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

	2019	2018
Service charges	22 284 343	21 984 542
Rental of facilities and equipment	261 926	226 610
Licenses and permits	1 543 785	1 671 732
Other income - (rollup)	277 050	1 065 676
Interest received - investment	695 572	1 367 140
	25 062 676	**26 315 700**

The amount included in revenue arising from non-exchange transactions is as follows:

	2019	2018
Taxation revenue		
Property rates	12 125 009	11 431 084
Property rates - penalties imposed	1 328 042	1 158 439
Transfer revenue		
Government grants & subsidies	113 421 000	111 648 000
Fines, Penalties and Forfeits	426 689	9 006 350
	127 300 740	**133 243 873**

20. Service charges

	2019	2018
Service charges - Reconnection Fees	134 263	512 520
Sale of electricity	20 367 745	19 976 469
Refuse removal	1 782 335	1 495 553
	22 284 343	**21 984 542**

21. Rental of facilities and equipment

	2019	2018
Facilities and equipment		
Commonage rent	-	139 284
Hire of hall	261 926	61 053
Rental income	-	26 273
	261 926	**226 610**

22. Other income

	2019	2018
Sundry income	193 775	239 345
Building plan fees	10 811	12 062
Cemetery fees	26 481	24 484
Rates clearance certificate	5 647	211
Hoarding	19 524	10 443
Photocopying	20 812	20 698
Valuation certificates	-	105
Insurance claims	-	758 328
	277 050	**1 065 676**

23. Investment revenue

	2019	2018
Interest revenue		
Short term deposits	199 838	684 487
Bank	495 734	682 653
	695 572	**1 367 140**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

24. Property rates

Rates received

	2019	2018
Residential	1 662 095	1 528 955
Commercial	5 429 596	5 397 858
State	3 646 121	3 750 907
Agriculture	1 168 181	557 272
Public service infrastructure	31	85
Vacant land	218 985	196 007
	12 125 009	11 431 084
Property rates - penalties imposed	1 328 042	1 158 439
	13 453 051	**12 589 523**

Valuations

	2019	2018
Residential	334 694 000	332 664 000
Commercial	389 477 000	387 567 000
State	290 910 000	290 910 000
Municipal Properties	62 321 532	62 321 532
Places of worship	9 766 000	9 730 000
Agriculture	905 373 002	905 373 000
Public Service Infrastructure	23 000	23 000
Vacant Land	12 620 688	13 086 688
	2 005 185 222	**2 001 675 220**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2015. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2020.

Property Rates Tarrifs:

Cent amount in the Rand determined for the relevant property category:

• Agriculture	0.34	0.32
• Commercial	1.75	1.62
• Industrial	1.72	1.62
• Public Service Infrastructure	0.34	0.32
• Public Service Purpose	1.38	1.30
• State Owned	1.38	1.30
• Residential	1.38	1.30
• Rural Tourism and Hospitality	1.38	1.30
• State Trust Land	1.72	1.62
• Urban Tourism and Hospitality	1.38	1.30
• Vacant Land	1.72	1.62

Rebates:

• Residential Properties	20%	20%
• State Owned	0%	0%
• Agriculture	18%	18%
• Public Service Infrastructure	30%	30%
• All Other Properties	18%	18%

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

25. Government grants and subsidies

Operating grants		
Equitable share	70 979 000	67 317 000
Expanded Public Works Programme (EPWP)	1 808 000	2 222 000
Financial Management Grant (FMG)	2 850 000	2 850 000
KZN Libraries, Archives & Museums Grant	1 035 000	771 000
Municipal Demarcation Transition Grant	-	6 210 000
	76 672 000	**79 370 000**
Capital grants		
Municipal Infrastructure Grant	21 749 000	24 278 000
Integrated National Electrification Gant (INEG)	15 000 000	8 000 000
	36 749 000	**32 278 000**
Total	**113 421 000**	**111 648 000**

Municipal Infrastructure Grant (MIG)

Current-year receipts	21 749 000	24 278 000
Conditions met - transferred to revenue	(21 749 000)	(24 278 000)
	-	-

Integrated National Electrification Grant (INEG)

Current-year receipts	15 000 000	8 000 000
Conditions met - transferred to revenue	(15 000 000)	(8 000 000)
	-	-

Demarcation Transition Grant

Current-year receipts	-	3 424 000
Current Year Receipts -Reimbursement of Prior Period Expenditure	-	2 786 000
Conditions met - transferred to revenue	-	(6 210 000)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

25. Government grants and subsidies (continued)

Library Grant

Current-year receipts	1 035 000	771 000
Provincialisation of Libraries Grant	(838 000)	(771 000)
Community Library Grant	(197 000)	-
	-	-

COGTA Grant

Balance unspent at beginning of year	17 134	17 134

Expanded Public Works Programme Grant

Current-year receipts	1 808 000	2 222 000
Conditions met - transferred to revenue	(1 808 000)	(2 222 000)
	-	-

Financial Management Grant

Current-year receipts	2 850 000	2 850 000
Conditions met - transferred to revenue	(2 850 000)	(2 850 000)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

26. Employee related costs

Basic	32 863 925	27 016 800
Bonus	2 001 029	1 826 755
Medical aid - company contributions	2 151 435	1 915 124
UIF	275 228	279 146
SALGA	13 676	13 274
Leave pay provision charge	164 619	476 597
Allowances	1 837 636	1 943 397
Overtime	2 815 772	1 759 122
Defined contribution plans	4 093 144	3 521 782
Travel, motor car, accommodation, subsistence and other allowances	3 306 261	3 594 411
Long-service awards	239 636	62 794
Housing benefits and allowances	927 364	109 441
Skills Development Levy	524 703	394 483
	51 214 428	**42 913 126**

Remuneration of Municipal Manager - P.P Sibiya

Annual Remuneration	1 013 285	903 518
Car Allowance	150 000	150 000
Contributions to UIF, Medical and Pension Funds	1 785	1 785
Remote Allowance	46 531	42 191
Skills	11 798	10 777
	1 223 399	**1 108 271**

Remuneration of Chief Financial Officer - K. Mthethwa

Annual Remuneration	-	604 023
Car Allowance	-	233 512
Contributions to UIF, Medical and Pension Funds	-	1 785
Remote Allowance	-	33 501
Skills	-	9 095
Other	-	63 016
	-	**944 932**

Remuneration of Director Technical Services - S.F Mchunu

Annual Remuneration	601 459	331 497
Car Allowance	180 000	105 000
Contributions to UIF, Medical and Pension Funds	1 785	1 041
Remote Allowance	31 258	17 300
Cell Phone Allowance	18 000	9 000
Other- Travel, Accommodation and Incidentals	26 742	4 427
Skills	7 949	-
	867 193	**468 265**

Remuneration of Acting Chief Financial Officer - N.M Myeni

Acting Allowance	41 624	-

Remuneration of Director Corporate Service - P.M Manqele

Annual Remuneration	-	75 134
Car Allowance	-	20 645
Contributions to UIF, Medical and Pension Funds	-	387

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

26. Employee related costs (continued)

Skills	-	1 388
Other	-	3 745
Other	-	31 545
	-	**132 844**

Remuneration of Acting Director Corporate Services - N.B Mathe

Acting allowance	34 360	-

Remuneration of Director Community Services - Z.S Mthethwa

Annual Remuneration	646 290	543 403
Car Allowance	150 000	150 000
Contributions to UIF, Medical and Pension Funds	1 785	1 785
Remote Allowance	34 732	31 305
Housing Allowance	72 000	72 000
Skills	8 730	7 771
	913 537	**806 264**

Remuneration of Acting Director Community Services - F.S Mazibuko

Acting Allowance	29 987	-

Remuneration of Acting Director Community Services - B.C.X Dladla

Acting Allowance	30 344	-

27. Remuneration of councillors

Hon. Mayor	771 235	424 084
Deputy Mayor	626 728	348 937
Executive Committee Members	1 164 840	987 856
Hon. Speaker	410 220	348 194
All Other Councillors	5 376 971	5 528 208
	8 349 994	**7 637 279**

In-kind benefits

The Hon. Mayor and Deputy Mayor are full time. Hon. Speaker and Executive Committee Members are part-time. Hon. Mayor, Hon Speaker and Deputy Mayor, each are provided with an office and secretarial support at the cost of the Council.

The Hon. Mayor. Hon. Speaker and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.

The Hon. Mayor, Deputy Mayor and Hon. Speaker each have a driver and a full-time bodyguard.

28. Depreciation and amortisation

Property, plant and equipment	17 467 123	15 212 299
Investment property	5 421	-
Intangible assets	16 356	45 501
	17 488 900	**15 257 800**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

29. Bulk purchases

Electricity - Eskom	22 302 722	21 540 968

30. Contracted services

Operating Leases	1 441 953	759 957
Other Contractors	4 887 165	3 847 304
Specialist Services	1 297 171	1 180 557

31. General expenses

Advertising & Publicity	4 124 473	4 296 498
Assessment rates & municipal charges	74 324	20 313
Assets expensed	72 813	581 643
Auditors remuneration	2 318 286	2 379 248
Bank charges	97 512	114 788
Bursaries	551 248	592 830
Conferences and seminars	147 253	-
Consulting and professional fees	5 802 428	4 803 666
Consumables	1 628 088	1 610 668
Contribution to Impairment (Rates, Refuse, Traffic, Electricity)	2 790 409	3 967 302
Contribution to other provision	1 134 759	783 110
Community development and training	1 500 195	2 095 997
Traffic Fines Written-off	189 625	-
Electricity	1 721 059	526 342
EPWP Stipends	2 762 526	2 999 193
Fuel and oil	1 673 909	1 764 133
Hire	265 355	113 466
IT expenses	117 831	56 268
Packaging	6 547	5 799
Inspection fees	-	23 059
Insurance	445 528	412 683
LED Projects	319 506	1 221 793
Magazines, books and periodicals	8 999	258 204
Management fees	158 883	41 313
Medical expenses	-	28 430
Other expenses	139 944	4 803
Indigent Burial	868 088	910 937
Printing and stationery	543 863	1 210 058
Protective clothing	739 118	1 229 924
Public participation	995 239	359 497
Refuse	308 000	615 329
Repairs and maintenance	4 596 204	3 956 652
Security (Guarding of municipal property)	3 395 462	5 393 180
Property Valuation Fees	181 849	279 695
Staff welfare	332 185	259 709
Subscriptions and membership fees	563 699	502 400
Telephone and fax	937 689	1 327 351
Training	664 877	776 435
Travel and subsistence	1 522 370	1 375 235
Workmen's compensation	249 004	243 798
Ward Comittee	1 811 900	1 951 047
Water	191 356	74 736
	45 952 403	**49 167 532**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

32. Fair value adjustments

Biological assets - (Fair value model)	1 256 474	(1 260 378)

33. Cash generated from operations

(Deficit) surplus	(337 662)	15 973 672
Adjustments for:		
Depreciation and amortisation	17 488 900	15 257 800
Fair value adjustments	(1 256 474)	1 260 378
Movements in retirement benefit assets and liabilities	681 000	21 000
Movements in provisions	1 134 759	783 110
Other non-cash items	(31 106)	170 789
Changes in working capital:		
Inventories	98 074	(124 877)
Consumer debtors	(782 912)	(1 289 802)
Other receivables from non-exchange transactions	137 286	(8 787 471)
Payables from exchange transactions	13 874 507	2 203 949
VAT	3 059 752	(364 367)
Consumer deposits	(65 287)	29 039
	34 000 837	**25 133 220**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

34. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	At fair value	At amortised cost	Total
Other receivables from non-exchange transactions	-	37 481 545	37 481 545
Receivables from exchange transactions	-	6 394 413	6 394 413
Cash and cash equivalents	2 693 793	-	2 693 793
	2 693 793	**43 875 958**	**46 569 751**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	26 616 306	26 616 306
Other financial liabilities	13 977 487	13 977 487
	40 593 793	**40 593 793**

2018

Financial assets

	At fair value	At amortised cost	Total
Other receivables from non-exchange transactions	-	37 657 243	37 657 243
Receivables from exchange transactions	-	5 573 090	5 573 090
Cash and cash equivalents	3 680 200	-	3 680 200
	3 680 200	**43 230 333**	**46 910 533**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	12 741 799	12 741 799
Other fincial liabilities	12 227 023	12 227 023
	24 968 822	**24 968 822**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

35. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	35 600 007	25 666 527
Total capital commitments		
Already contracted for but not provided for	35 600 007	25 666 527

Operating leases - as Lessee (expense)

Minimum lease payments due		
- within one year	509 918	1 277 023
- in second to fifth year inclusive	-	2 228 945
	509 918	**3 505 968**

Operating lease payments represent rentals payable by the municipality for certain of its telephone equipment, photocopiers and motor vehicles. No contingent rent is payable.

Operating leases - as Lessor (income)

Minimum lease payments due		
- within one year	186 778	67 668
- in second to fifth year inclusive	246 667	53 111
	433 445	**120 779**

Certain commonage and vacant land is held to generate rental income. Lease agreements are non-cancellable and there are no contingent rents receivable.

36. Contingencies

There were no pending litigation cases as at 30 June 2019`.

Figures in Rand	2019	2018

37. Related parties

Related party balances

The following councillors and key management owed the municipality in respect of traffic fines as at 30 June 2019

Councillors		
Cllr S.B.K Biyela (Mayor)	500	500
Cllr P.E Ntombela (Deputy Mayor)	2 350	2 350
Cllr N.A Mbatha (Speaker)	2 900	2 900
Cllr M.N Ndlangamandla	4 950	4 950
Cllr H.K.L Zungu	10 250	10 250
Cllr E.M Masikane	1 850	1 850
Cllr J Mlawu	1 450	1 450
Cllr M.E Zulu (Deceased - 04 July 2018)	-	3 100
Cllr B.M.T Sibiya	5 900	5 900
Cllr D.F Xulu	600	600
Cllr T.F Zincume	150	150
Cllr D.M.O Ngcobo (Deceased - 02 March 2018)	-	6 950
Cllr T.E Mpungose	200	200
Cllr D.M Dludla	5 600	5 600
Cllr E.M Mthembu (Terminated - 28 March 2018)	-	3 850
Cllr Z.A Sibiya	400	400
	37 100	51 000
Directors		
Mr P.P Sibiya (Municipal Manager)	26 000	26 000
Mr Z.S Mthethwa (Director Community Services)	5 450	5 450
Mr K.N Mthethwa (Chief Financial Officer) - Resigned	-	1 900
Mr S Mchunu (Director Technical Services)	950	950
Mr P.M Manqele (Director Corporate Services) - Resigned	-	7 400
	32 400	41 700

As per Section 124 (1)(b) of the MFMA, the following Councillors owed the Municipality in respect of property rates and service charges for a period of more than 90 days as at 30 June 2019.

Councillors	**2019**	**2018**
Cllr M.N Ndlangamandla	2 739	-
Cllr N.A Mbatha	5 304	-
Cllr E.M Masikane	4 358	2 660
Cllr D.M Dludla	-	221
	12 401	**2 881**

38. Prior period errors

The following prior period error occurred:

During the current financial period, the Municipality obtained subsequent information relating to a project which was completed during the financial period ended 30 June 2018. This resulted in misstatements being identified that have subsequently been corrected:

Presented below are those items contained in the Statements of Financial Position, Statement of Financial Performance and the Statement of Changes in Net Assets that have been affected by prior-year adjustments:

Figures in Rand	2019	2018

38. Prior period errors (continued)

Statement of financial position

2019	As previously reported	Correction of error	Restated
Increase in Accumulated Depreciation	(52 742 792)	(13 220)	(52 756 012)

Statement of financial performance

2019	As previously reported	Correction error	Restated
Increase in Depreciation	15 244 580	13 220	15 257 800

Statement of Changes in Net Asset	As previously reported	Correction error	Restated
(Increase)/Decrease in Accumulated Surplus	(379 309 645)	13 220	(379 296 425)

39. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. The accounting officer provides written principles for overall risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Financial liabilities exposed to credit risk at year end are as follows:

	2019	2018
Financial liabilities	39 843 920	24 867 180

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis.

	2019	2018
Cash and cash equivalents	2 693 793	3 659 172
Trade and other receivables	6 405 780	5 573 090
	9 099 573	**9 232 262**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

40. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

(a) The Accounting Officer continue to procure funding for the ongoing operations for the Municipality.

(b) The Municipality have not lost any of the key customers or principal suppliers.

(c) The Municipality does not experience Labour difficulties.

(d) The Municipality does not have shortage of important suppliers.

(e) Financial indicators (ratios), financial results, bank account account balance and net asset are all positive.

41. Unauthorised expenditure

Opening balance as previously reported	33 129 821	31 620 916
Add: Unauthorised Expenditure - current year	-	1 508 905
Subtotal	**33 129 821**	**33 129 821**
Closing balance	**33 129 821**	**33 129 821**

42. Fruitless and wasteful expenditure

Opening balance as previously reported	56 504	56 504
Subtotal	**56 504**	**56 504**
Add: Fruitless and Wasteful Expenditure - Current year	341 816	-
Closing balance	**398 320**	**56 504**

Fruitless and wasteful expenditure comprises of interest on overdue accounts (R329 318), no show charges for accomodation and cancellation (R7 498) as well as traffic offence fees of (R5 000).

43. Irregular expenditure

Opening balance	110 555 332	74 311 830
Add: Irregular Expenditure - current year	17 104 537	36 243 502
Subtotal	**127 659 869**	**110 555 332**
Less: Amount certified by Council as irrecoverable and written off	(46 178 407)	-
Closing balance	**81 481 462**	**110 555 332**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

43. Irregular expenditure (continued)

Details of Irregular expenditure

Dolphin Coast Solutions	256 999	321 445
Fidelity Cash Solutions	70 174	81 783
Induna Logistics	382 357	6 784 586
Indwe Risk Services	512 357	454 059
Konica Minolta Zululand	174 496	282 875
Mfezi Security	2 291 233	1 797 550
TMT Services	275 884	1 192 454
Muffler & Towbar	-	14 946
Chico Man Trading	-	975 000
Buthelezi Mtshali Mzulwini Attorneys	886 888	787 137
Jabulani Teressa Construction	1 138 037	300 001
Silo Group Holdings	3 351 237	701 848
Ethala Construction	1 115 021	2 221 622
Somkhanda Plant Hire	6 109 608	3 028 944
Bargain Uniform	540 246	-
Total	**17 104 537**	**18 944 250**

The Irregular Expenditure is as a result of appointments that were adjudicated by the Bid Committee comprising of three Senior Managers instead of the prescribed four Senior Managers as per Section 29(2) of the SCM Regulations.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

43. Irregular expenditure (continued)

Details of irregular expenditure due to non-compliance with regulation on local production and content

Textile, Clothing, Leather and Footwear	-	2 187 735
Steel power pyions	-	230 540
Furniture	-	149 340
Electrical and Telecoms cable products	-	12 105 034
	-	**14 672 649**

The above expenditure was in non-compliance with regulation on local production and content for designated sectors.

Details of irregular expenditure due to non-compliance with MFMA Regulation 13 (c) - Declaration were not obtained from written quotations (R2 626 605 - 2017/18).

Action taken

The Council has certified the Irregular Expenditure for the past three financial years as irrecoverable and written it off in terms of Section 32(2) of the MFMA, since the Municipality has three Departments, and thus three Senior Managers, and not forming the prescribed number of the Bid Committee members as per Section 29(2) of the SCM Regulations .

44. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	500 960	483 547
Amount paid - current year	(500 960)	(483 547)
	-	-

Electricity distribution losses

Units lost (Kilowatts)	1 631 275	2 240 730
Units lost (Selling Price)	2 038 155	2 968 337
Units lost (Purchase Price)	2 469 170	1 921 840
Units lost (Percentage)	9.0%	12,82%
	-	-

The electricity distribution losses are mainly due to aging infrastructure, technical losses and illegal connections.

Audit fees

Current year subscription / fee	2 318 286	2 379 248
Amount paid - current year	(2 318 286)	(2 379 248)
	-	-

PAYE and UIF

Current year subscription / fee	8 845 953	7 391 027
Amount paid - current year	(9 513 136)	(7 391 027)
	(667 183)	**-**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

44. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

	2019	2018
Current year subscription / fee	11 054 113	9 833 410
Amount paid - current year	(11 902 270)	(9 833 410)
	(848 157)	**-**

VAT

	2019	2018
VAT receivable	743 979	3 803 731

45. Deviation from supply chain management regulations

	2019	2018
Deviations current year (Regulation 36)		
Emergency procurement	3 761 956	4 401 442
Sole Supplier or service provider	98 322	1 558 894
Impractical/Impossible to follow procurement process	8 225 504	3 440 597
	12 085 782	**9 400 933**
Deviations current year (Regulation 32)	3 788 809	4 303 517

46. Other revenue

	2019	2018
Other income - (rollup)	277 050	1 065 676

47. Interest paid

	2019	2018
Interest paid - Late payments	341 816	-

48. Events after the reporting date

On 29 August 2019 the Council of Mthonjaneni Local Municipality approved and certified the Irregular Expenditure amount that existed as at 30 June 2019 as irrecoverable and be written off. This resulted in an adjusting post Balance Sheet event in terms of GRAP 14.

The effect on the reported figure is as follows:

Disclosure

	2019	2018
Decrease in Irregular Expenditure	(46 178 407)	-

49. Budget differences

Material differences between budget and actual amounts

A - Property Rates

The Municipality expected to inherit more properties from the Ntambanana Split, but only schools were inherited and thus resulted in a low property rate billing than anticipated.

B - Service Charges

A negative variance between the budget and actual revenue from service charges resulted from the fact that there was a reduction in electricity consumption for the first seven months of the financial year than was anticipated.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

49. Budget differences (continued)

C - Other Revenue

Other Revenue comprises of Rental of Facilities and Equipment, Licenses and Permits, Fines, Penalties and Forfeits and Other Income. The variance is caused by the fact that the Municipality did not issue as much licenses and permits as targeted, and this is beyond the control of the Municipality as licenses and permits depends on the number of people who needs them during the financial year.

Also the Municipality no longer have a contract with TMT who previously assisted with speed cameras and thus reducing the tickets issued on speed violation.

D - Depreciation and Asset Impairment

The large variance above the budget was caused by the fact that the Municipality did not dispose off any assets this financial year as was anticipated, and there were additions and capital projects completed during the financial year, hence why the depreciation for the year became very high.

E - Interest Paid

The Municipality did not anticipate paying any interest due to late payments and thus did not budget for it.

F - Materials and Bulk Purchases

The Municipality saved on other expenditure items due to adoption and implementation of Circular 82 by Council on Cost Containment Measures.

G - Other Expenditure

Other Expenditure comprises of Debt Impairment, Contracted Services and General Expenses. The variance is largely caused by the introduction of mSCOA which required a further classification in terms of whether the goods and services are contracted or not and other expenditure items were split amongst the relevant expenditure categories.

H - Transfers recognised - Capital

The variance is caused by the additional MIG funding of R4 000 000.00 that the Municipality received in March 2019.

J - Capital Expenditure

This is largely caused by the additinal MIG funding of R4 000 000.00, the Municipality received in March 2019 which was not anticipated and thus the expenditure thereof.